

VZCZCXRO3958
PP RUEHMA RUEHPA
DE RUEHDK #2431/01 2830945
ZNR UUUUU ZZH
P 100945Z OCT 06
FM AMEMBASSY DAKAR
TO RUEHC/SECSTATE WASHDC PRIORITY 6521
INFO RHEBAAA/DEPT OF ENERGY WASHDC
RUEHRC/USDA FAS WASHINGTON DC
RUCPDO/USDOC WASHDC
RUEHLMC/MILLENNIUM CHALLENGE CORPORATION
RUEHZK/ECOWAS COLLECTIVE
RUEHBR/AMEMBASSY BRASILIA 0202
RUEHLI/AMEMBASSY LISBON 0751
RUEHGV/USMISSION GENEVA 0767

UNCLAS SECTION 01 OF 04 DAKAR 002431

SIPDIS

SIPDIS
SENSITIVE

STATE FOR EB/IFD/ODF, INR/AA, AF/EPS AND AF/W
AID/W FOR AFR AND AFR/WA
DOE FOR OFFICE OF POLICY AND INTERNATIONAL AFFAIRS
USDOC FOR 4510/OA/PMICHELINI, AROBINSON-MORGAN/KBOYD
USDOC FOR 3131/CS/ANESA/OIO/GLOOSE/GLITMAN/MSTAUNTON
ACCRA FOR USAID/WA

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [EAGR](#) [EINV](#) [EPET](#) [EFIN](#) [SOCI](#) [PU](#)

SUBJECT: GUINEA-BISSAU: ECONOMIC AND COMMERCIAL TOUR D'HORIZON ON
THE EVE OF THE DONOR ROUNDTABLE

REF: DAKAR 02418 (NOTAL)

DAKAR 00002431 001.2 OF 004

SUMMARY

1. (SBU) Guinea-Bissau ranked 172 out of 177 countries on the UNDP's 2005 Human Development Index. This is a critical moment for Guinea-Bissau, which has only recently emerged from years of armed conflict and missed economic opportunities. With a government struggling to provide basic services and downsize the bloated military, development assistance is crucial to ensuring economic growth and political stability. The agriculture and fishing sectors face significant challenges, with few Bissau-Guineans fishing. Cashew revenues are likely to fall significantly and rice production has declined in 2006. Most investors outside the energy and cashew sectors continue to watch and wait. The impressive Minister of Economy has a vision, but he needs donor resources to realize it.
END SUMMARY.

ECONOMIC BASICS

2. (SBU) Several areas are key to economic growth in Guinea-Bissau. First, the business investment climate needs significant improvement. Despite increased attention to Guinea-Bissau, there has been only a small amount of foreign direct investment (FDI) in the country over the past several years. Second, investors remain concerned about political stability although significant opportunities exist in most sectors including agriculture, energy, textiles and seafood processing.

3. (U) Basic data includes:
GDP (2005 est.): USD 285.1 million;
Real growth rate (2005 est.): 1.6 percent.
GDP per capita, purchasing power parity (2004 est.): USD 710.
Natural resources: Fish and timber. Bauxite and phosphate deposits are not exploited; offshore petroleum.
Agriculture: Products--cashews, tropical fruits, rice, peanuts, cotton, palm oil. Arable land--11 percent. Forested--38 percent.
Industry: Very little industrial capacity remains following the 1998-99 civil war. The cashew processing industry is nascent.
Trade: Exports--USD 100.8 million (f.o.b., 2005 est.): cashews (USD

64.1 million, 2003 est.), fish and shrimp (USD 0.2 million, 2003 est.), other (USD 2.8 million, 2003 est.). Major markets (2004)--India 54.1 percent, United States 23 percent, Nigeria 13.7 percent, Italy 3.5 percent, Senegal 1.2 percent. Imports--USD 115.7 million (f.o.b., 2005 est.): foodstuffs (USD 22.8 million, 2003 est.), capital equipment (USD 21.5 million, 2003 est.), petroleum products (USD 7.2 million, 2003 est.). Major suppliers (2004 est.)--Senegal 45.6 percent, Portugal 14.2 percent, Netherlands 4.0 percent, China 3.8 percent, Italy 3.8 percent.

HOPING FOR BUDGET SUPPORT

¶4. (U) The GOGB is hoping for significantly increased international donor assistance as a result of a planned IMF-hosted donors' roundtable in Geneva, November 7 and 8. Guinea-Bissau has a projected budget gap of 14.2 billion CFA francs (CFAF) (USD 26.3 million dollars) of which USD 25.9 million is identified budget support from the West African Economic and Monetary Union (UEMOA/WAEMU), Economic Community of West African State (ECOWAS), European Union, World Bank, UNDP, and China. Over 90 percent of the budget gap stems from 11 months of salary arrears dating from 2002 and 2003 during the Yala administration. The GOGB owes USD 480.8 million in multilateral debt and USD 511.2 million in bilateral debt (none owed directly to the United States). The Government is drafting a new legal and regulatory framework to meet WAEMU norms and hopes to achieve HIPC completion by the end of 2009.

¶5. (U) The Vieira administration is pursuing a new wage bill to help address the budget issue. The Ministry of Finance, with an eye towards eliminating "ghost" employees, is attempting to rationalize government payrolls by comparing its current payroll to a 2005 census that identified 12,000 actual civil servants. Currently, in spite of collecting a minimum monthly salary of roughly USD 38, many civil servants long ago stopped reporting to their offices, have taken other jobs, or have even left the country. The proposed wage

DAKAR 00002431 002.2 OF 004

bill also provides for the retirement of 1,000 employees, a hiring freeze, and a new competency-based test for high level administrative positions.

ENERGY

¶6. (U) In addition to seeking critical donor support, the Government is hopeful that oil may soon come on line. Water and energy agency (EAGB) officials told EmbOff that national energy consumption consists of 80 percent biomass (charcoal and wood), 17 percent petrol, and 3 percent diesel (in generators). Only eight percent of the country's residents have access to electricity. In Bissau there are 17,000 customers and in the Bafata-Gabu region there are 5,000 customers. The average rate is CFAF 150-200 per kw. Throughout the country, there are three functioning power stations, one each located in Bissau, Bissora and Bafata. There are six other power stations located throughout the country that do not currently function due to a lack of diesel fuel supplies.

¶7. (U) In 2005, EAGB imported 49,577,596 liters of diesel; 3,872,000 liters of gasoline; mixed gasoline: 2,220,000 liters of mixed gasoline; and 1,040,100 liters of jet fuel. It imports from Senegal's refinery (SAR) -- when it is producing, -- as well as from Shell and Total. The GOGB sets energy prices by decree, and in the past retailers faced low margins when the domestic retail price was not raised to correspond with increases in international market prices. To avoid the ensuing supply shortages and smuggling, the GOGB claims it will introduce an automatic adjustment mechanism for petroleum product prices by end of 2006.

OIL PROSPECTING

¶8. (SBU) Petroguin, the state's oil prospecting agency, has a 20-30 percent stake in a partnership with Occidental Petroleum (U.S.) and Premier (UK) for prospecting two offshore exploration blocks: "SICAP" in the North and "Esperance" in the South. They plan to drill Esperance by next year. Petroguin is also reportedly in negotiation with Australian-based Hardman and Swiss-based GB Gas &

Oil for prospecting contracts in a different block.

¶9. (SBU) Petroguin and western oil consultants are optimistic about the prospects for significant discoveries based on the geological conditions present off shore. Houston-based data broker, Fortesa, stores this sensitive data, which Petroguin uses as a marketing tool. Petroguin reports that technical mapping and ensuring data quality are their primary challenges in moving forward with offshore exploration.

OTHER AMERICAN INVESTMENT AND COMMERCIAL CLIMATE

¶10. (U) Apart from oil exploration, the United States has limited involvement in Guinea-Bissau's economy. A handful of American companies have interests in Bissau, including Occidental Petroleum and Fortesa (Energy), Western Union (money transfers), Wachovia Bank (Visa card services), and Rota International (cashews).

¶11. (U) Guinea-Bissau's Poverty Reduction Strategy Paper aims to improve the investment climate by conforming to the World Bank's Multilateral Investment Guarantee Agency (MIGA) and "Le Fonds Africain de Garantie et de Cooperation Economique's" (FAGACE's) standards for FDI. Other investment promotion efforts planned by the GOGB include:

- introducing a single stop for potential investors;
- drafting a new investment code;
- establishing build-operate-transfer procedures;
- creating export processing zones; and
- eliminating administrative barriers and industrial and commercial license fees.

In addition, the GOGB is hoping for donor assistance with the rehabilitation of the port of Bissau, including cold storage facilities, and with school repairs and rebuilding.

¶12. (U) To improve contract enforcement, the Ministry of Justice claims to be establishing new measures including commercial

DAKAR 00002431 003.2 OF 004

legislation compliant with the "Organisation pour l'Harmonisation en Afrique du Droit des Affaires" (OHADA) standards by the end of 2007.

The Ministry is also working on a commercial court (financed by the World Bank), better trained magistrates, and a small arbitration center embedded in the Chamber of Commerce. The Ministry has already established procedures backing a Bissau-Guinean certificate of origin for exports. Justice Minister Gomes asserted that the European Union will fund the construction of an agriculture and food laboratory to improve phyto-sanitary norms and assure the safe movement of food and agricultural goods. Regarding the movement of people, the Ministry has reportedly placed an order for Selmex biometric equipment from Belgium to issue identity cards to all Bissau-Guineans.

¶13. (U) GOGB officials are outspoken in their assertion that these reforms, when enacted, along with the Government's efforts to enhance political stability, should create attractive investment opportunities in many sectors of Guinea-Bissau's economy. Notably, in 2006, the Government initiated a privatization program for 14 companies with an estimated total market value of 2.6 billion CFAF, including two hotels. Other sectors highlighted by officials include, alternative energy development, cashew processing, construction, and the importation of basic goods from wheat to construction materials. Moreover, Prime Minister Aristides Gomes was proud to join Ambassador Jacobs at the opening of the African Growth and Opportunity Act (AGOA) Resource Center on September 28.

RECENT CRISIS IN IMPORTS OF BASIC GOODS

¶14. (U) The Government recently reduced import tariffs and sales tax for several basic necessities, including rice, wheat, sugar, cement, and gasoline. Although the objective was to make these goods more accessible to consumers, the importers failed to reflect their newly reduced costs in their sales prices -- most likely because the goods were already being imported tax-free through illegal/informal channels. The Government reacted by setting price

ceilings on a range of products. The importers responded by withholding the products from the market. Consequently, as of August 2006, there was a severe shortage of cement and flour among other basic goods. To address the crisis, the Ministry of Economy organized a trade mission to Bissau in late August for officials from Senegal's Chamber of Commerce, Industry, and Agriculture to improve the availability of basic necessities in Guinea-Bissau.

RICE

¶15. (U) Historically, Guinea-Bissau was mostly self-sufficient in rice, the country's primary, almost exclusive, food staple. At an estimated 200,000 tons, domestic rice production is significantly lower than in previous years, due to two primary causes: heavy rains that washed away protective barriers in the rice paddies, allowing seawater in to spoil the rice, and, many rice farmers switching over to cashews, which they erroneously believed would be more lucrative.

¶16. (U) Unfortunately, at the same time that rice harvests fell, the Government raised taxes on imported rice in order to encourage local rice production and consumption. The combined result of the poor rice harvest and the cashew nut pricing crisis (reftel) is that a vast number of Bissau-Guineans do not have sufficient income from nut sales to buy the more expensive imported rice. Equally problematic, one kilogram of cashews used to be bartered within local markets for one sack of rice. However, with the crash in value of cashews, it now takes three or more kilograms of cashews to trade for a sack of rice.

¶17. (U) In May 2006, the GOGB asked the international community for USD 2.35 million in assistance to alleviate the hunger of more than 250,000 people residing in the southern region of the country. The Minister of Agriculture and Rural Development said that in addition to direct food aid, the requested funds would be used to reconstruct embankments for rice paddies, build up food reserves, and to replenish seed stocks.

FISHING

DAKAR 00002431 004.2 OF 004

¶18. (U) Guinea-Bissau's fishing agreement with the European Union will expire on June 15, 2007. The agreement entered into force on June 16, 2001, and was extended for one year by the Vieira government. The protocol is worth 44,520,000 euros in exchange for 4,400 gross registered tons (GRT) of shrimp, 4,400 GRT of fish cephal, 40 tuna boats, and 30 pole and long-liners. Guinea-Bissau's fishing sector concessions account for more than one-fourth of government revenues. (NOTE: According to the IMF, in 2005, agreements under which fishing licenses are obtained against payments in kind or for settling government obligations were stopped. New agreements will be monetary only, and all fishing agreements are expected to be harmonized. END NOTE.)

¶19. (U) The waters off of Guinea-Bissau produce plentiful shrimp, tuna, marlin, barracuda, shark, and other fish. Vessels from Europe, Asia, and Africa have signed fishing protocols with the GOG, but there are few commercial Bissau-Guinean fishing vessels due to the costs and bureaucracy associated with registering fishing boats and fishing licenses. Additional problems in the sector include a lack of in-country processing, very few functioning cold storage facilities, illegal commercial fishing, and shark fin poaching. The Government plans to repair two surveillance boats to improve territorial water monitoring and expects to receive additional equipment funded by the African Development Bank.

NEW BANKS OPEN BUT WARY OF INVESTMENT RISKS

¶20. (U) Two new banks opened in Bissau within the past year: the "Banque Regionale de Solidarite" (BRS) and the locally owned "Banco du Uniao" (BDU), offering micro finance services (up to CFAF 20 million (USD 40,000) and savings and loans services, respectively. Both banks report low levels of investment and lending due to a lack of governmental contract enforcement, international communications problems for offering commercial credit, and a lack of incentives

for informal sector businesses to formalize in order to use banking services. The informal sector constitutes an estimated two-thirds of Guinea-Bissau's economy.

¶21. (U) The BRS branch, backed by the BRS-SA Holding Group in Niamey, reports start-up capital of CFAF 2 billion with an additional CFAF 1.7 billion ready for investment. Yet in spite of a goal of investing in 51 new microfinance projects this year, it has only invested in 20 so far. Engaging mostly in equipment financing, the BRS does not issue loans. If it approves a project, it can loan rolling funds up to ten percent of the total financing package. They are working with the American Wachovia Bank to offer visa services but first must install a new satellite link to improve communications. BRS also works with Paris-based correspondent bank UBAF.

COMMENT

¶22. (SBU) The Vieira government is slowing coming to terms with its finances. Burdened with a huge debt, especially from the salary arrears built up during Kumba Yala's administration, and with a huge, top heavy military, the GOGB is placing enormous stock in donor support and in hoped-for oil revenue. Neither is certain. However, the Government, especially the impressive Minister of Economy, appears to understand that the GOGB has to cease fixing prices for cashews, cement, petroleum products and other goods. The Government also realizes that agriculture alone will not get Guinea-Bissau's economy back on its feet. It must attract additional foreign investment and take greater advantage of AGOA.

END COMMENT.

JACKSON